New England's Own

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addition to the Somerville, Mass. plant were larger by $3,911,092.

Current liabilities increased $764,334 from the previous year, but notes payable declined $182,575 to $550,000. Current ratio was 2.75 times, as against 2.50 times the previous year. Working capital was $8,510,834, larger by nearly $2,500,000 than its previous year's level of $6,017,211.

Funded debt remained the same, though $96,800 of mortgages payable appeared on the 1930 statement. Preferred stock was unchanged over the previous year, while common stock, reflecting the acquisition of Economy and Nicholas-Thackeray, and the subscription by stockholders to 39,030 shares at $50 per share, rose to $6,977,422, an increase of $4,240,794. Surplus reached a new high of $5,456,132, an increase of $2,218,999 over the previous year.

The balance-sheet position for the fiscal year of March 31, 1931, may be expected to show an even greater improvement. The company will be entirely out of debt to the banks. Inventories and accounts payable, as well, will be lower. The current ratio will be high. Funded debt and capital stock, both preferred and common, will be unchanged. Surplus will reach a new high level. In fact, the forthcoming year-end statement will reflect throughout the strong position of the company.

Funded debt consists of $1,500,000 first-mortgage 5% bonds, due April 1, 1952, redeemable at 105 to April 1, 1932, thereafter at 1% less every five years. A sinking fund of $52,500 annually, beginning Oct. 1, 1932, will retire 70% of the issue by maturity. Bonds are secured by a first mortgage on all real estate and buildings contained in the central headquarters located in East Somerville.

First preferred stock totals $5,000,000, paying 7% redeemable on any dividend date, upon 30 days' notice, in whole or part, at $110. A reserve of 5% of net earnings of previous year, but not in excess of 5% of preferred outstanding, is to be set up annually, having begun after Jan. 1, 1928. The first preferred is non-voting; but upon default of four dividend payments it has one vote per share until accumulations are cleared up.

The market range for the common stock is given in the table below. This issue is listed on both the New York and Boston Stock Exchanges:

	High	Low
1926	49⅜	28
1927	30	19¼
1928	76⅜	28
1929	90	44½
1930	61⅜	38⅝
1931 to date	55	41

At current levels of 53, the common is selling at 10.6 times its estimated 1930-31 earnings of $5 a share. Preferred dividends have been paid regularly, while 37½-cent quarterly common dividends were inaugurated April 1, 1926, which rate was continued until Jan. 1, 1930, when it was increased to 62½ cents per share quarterly. At current levels of 53, the $2.50 dividend provides a yield of 4.7%.

CONDENSED INCOME ACCOUNT

Income Account

	9 mos. end. Dec. 27, '30	Year end. March 29, '30	Year end. March 31, '29	Year end. March 31, '28	15 mos. end. Apr. 2, '27	Year end. Dec. 31, '26
Sales	$81,625,815	$107,635,216	$75,884,639	$64,445,962	$73,878,053	$58,082,254
Gross profit before depr & fed tax	4,383,667	5,893,005	3,913,056	2,118,233	2,671,079	2,445,441
Depreciation	591,463	603,363	456,197	353,001	399,360	328,465
Federal taxes	459,262	553,586	408,821	213,313	298,450	281,037
Total deductions	1,051,085	1,156,949	865,018	566,314	697,810	609,502
Net profits	3,332,582	*4,736,056	*3,048,038	*1,551,919	*1,973,260	1,835,939
Net to gross	4.07%	4.39%	4.02%	2.41%	2.67%	3.16%
Pfd dividends	262,410	346,812	347,932	347,788	436,643	N. R.
Net avail for com	3,070,172	4,389,244	2,700,106	1,204,131	1,536,624	1,481,550
Common shs out	820,700	827,364	628,616	595,000	595,000	595,000
Earned per share	$3.74	$5.30	$4.29	$2.02	2.58	2.49
*Excluding losses or gains from sale of capital assets aggregating as follows:	....	cr.37,389	dr.37,975	cr.41,439	cr.475,836	

BALANCE SHEETS AS OF MARCH 31, 1930, 1929, 1928, APRIL 2, 1927 AND DEC. 31, 1926

Assets

	1930	1929	1928	1927	1926
Cash and U S Gov't securities	$2,581,294	$1,649,007	$1,073,968	$2,808,659	$1,239,360
Accts & notes rec	346,568	397,790	330,121	326,865	362,177
Inventories (mdse & supplies)	10,437,393	8,060,500	6,453,576	6,015,453	6,608,584
Total current assets	13,365,254	10,107,297	7,857,664	9,150,978	8,210,121
Deferred charges	372,536	293,443	249,368	222,236	286,093
Leasehold	....	110,093	129,302	145,626	....
Investments, advances, deposits & treas stock	615,513	269,689	116,566	1,085,106*	91,967
Land, bldgs, improvements, furn & fixtures, auto, etc, after deprec	10,445,064	6,533,972	5,604,718	3,556,792	3,301,454
Good will	1	1	1	1	1
Total assets	24,798,368	17,314,496	13,957,619	14,160,739	11,889,636

*Includes $958,750 balance of bond issue temporarily invested.

Liabilities

	1930	1929	1928	1927	1926
Notes payable	$550,000	$732,575	$675,000	$1,130,000	$1,622,400
Accts payable, acceptances, accruals	3,109,392	2,483,052	2,238,826	2,238,480	1,479,675
Federal tax provision	563,888	428,138	242,322	311,686	296,872
Employees' investment ctfs	631,140	446,320	335,760	256,791	....
Total current liabilities	4,854,420	4,090,086	3,491,909	3,936,957	3,398,947
Reserves	913,595	750,649	521,103	609,284	187,785
Mtges payable on real estate	96,800	....	....	....	....
First mtge 5% s f gold bond	1,500,000	1,500,000	1,500,000	1,500,000	....
7% preferred stock*	5,000,000	5,000,000	5,000,000	4,989,440	4,988,199
Common stock	6,977,422	2,736,628	1,727,407	1,737,967	1,739,207
Surplus	5,456,132	3,237,133	1,717,200	1,387,091	1,575,498
Total liabilities	$24,798,368	$17,314,496	$13,957,619	$14,160,739	$11,889,636

*Includes small amount of old 8% preferred net exchange.

New England's Own

First National Stores, Inc., the Integration of Nine Grocery Chains

By WILLIAM HENRY SMITH

BACK in 1924, competition was proving well-nigh ruinous to three moderate-sized grocery chains operating for the most part in and around Boston. When, in the year following, the Ginter Co., John T. Connor Co., and O'Keeffe's, Inc., merged and became the First National Stores, Inc., there began an experiment in co-operation which during the past five years has materially benefited the customers it was designed to serve.

Herein is an analysis of the important factors that have produced one of the outstanding grocery-chain systems of the country. Three-quarters of its 5000 stockholders live in New England. The company pays to New England landlords $10,000 a day in rentals and to New England producers more than $25,000,000 annually, while its employees receive more than $11,000,000 each year. Located entirely within the borders of New England, it is rightfully entitled to be called "New England's Own."

The Causes for the Merger

The aggressive managements of the predecessor companies, struggling for supremacy, had created conditions which were operating to the disadvantage of all. Competitive bidding for store locations had driven rents to excessive figures. Sales volumes of the individual companies were in each case insufficient to obtain minimum costs. Customer volume was often divided into thirds. Warehouse and manufacturing facilities were duplicated, and store deliveries, through multiplicity of overlapping routes, were expensive. Even though these chains were competing, the real benefits of such competition were lost in the inefficiencies of operation, and their customers gained little or nothing. In fact, one of the immediate results of the merger was to lower food prices to the public.

To give a more accurate picture of the individual units in the merger, and of their combined size, Table I has been prepared, as follows:

TABLE I

Comparative data of the merged companies for the last fiscal year preceding the merger, and the new company for the year ending Dec. 31, 1925:

Fisc yr ending:	Ginter Dec. 31, 1924	Connor Mar. 31, 1925	O'Keeffe's Sept. 30, 1925	First Nat'l Stores, Inc. Dec. 31, 1925
Total stores	*331	448	640	1,644
Restaurants	9	0	0	9
Sales	$12,499,381	$15,670,148	$18,248,580	$48,976,740
Net profits .	625,947	322,016	699,917	1,760,651
Shares outstd	200,000	150,000	200,000	565,000
Earn per share	2.46	2.03	3.50	2.56

*Includes five large stores in Boston.

Merger Problems

The new company was confronted with many problems. The most important were: Elimination of duplicating stores; rearrangement of delivery routes; a central warehousing base; adequate manufacturing facilities; a modern and sanitary meat refrigerating and processing plant; together with the development of the combination store and a strengthening of the company's distributing position in New England.

During the early years of the merger, the closing of duplicate stores was coincident with the opening of new stores in more desirable locations. In Massachusetts, where the predecessor companies had concentrated their units, closings exceeded openings. It will be noted from Table II that in 1926, the first full year of operation, 38 more stores were closed in that state than were opened.

Warehouse Concentration

Relocation of delivery routes was comparatively simple, but the warehouse problem was a complicated one. None of the then existing warehouses was large enough to serve the combined group. To continue to use the individual warehouses would be to continue the inefficiency of the past. Hence, the company devoted considerable study to this subject, and eventually constructed the Somerville, Mass., "base," a warehousing and manufacturing unit second to none in the industry. Until the new base was in operation, the combined earning power of the company was adversely affected. In early 1930, the capacity of the Somerville "base" was increased about 40%, through the construction of a new building equipped primarily for meat handling and processing.

Growth of Combination Stores

The combination store, handling fresh vegetables, fruits, meat, and fish, in addition to groceries, means larger volume of sales obtained "under one roof" and in lower operating costs. Hence, the company had a double incentive (a greater sales volume at a lower operating expense ratio) toward the development of this type of store, none of which was operated by the predecessor companies.

As the initial step in this development, a merger was arranged with the Arthur E. Dorr & Co., a wholesale and retail distributor of provisions. This company, in addition to its wholesale business, operated nine retail markets in and around Boston. It formed the nucleus of personnel and experience for the operation of the meat-marketing side of the combination store. In February, 1930, the wholesale department of the Dorr business was sold at a figure reported to be $500,000.

The year-by-year growth of the "combination store" is shown in the right-hand column of Table II. No evidence is afforded as to the actual number of grocery stores superseded by the larger stores, but the general average of the industry has been to close at least two grocery stores for each new combination unit opened.

How many "combination stores" can be opened eventually in New England by the First National company is a question. A study, by the writer, of the reports by the Census of Retail Distribution, covering 217 cities and towns and nearly 43,000 stores, indicated that the ratio of combination stores and meat markets to the total of all grocery, meat and combination stores is nearly 1 to 2. The ratio of combination stores to all stores of the Great Atlantic & Pacific Tea Co. of America is 1 to 4. The ratio of the First National Stores, Inc., on March 31, 1930, was 1 to 12½. An eventual ratio of 1 to 3 seems entirely within the company's possibilities. Without an increase in the present number of total stores, the ratio of 1 to 3 would permit the company to increase its number of combination units to 850, from the present 204. A quadrupling of the existing number of combination stores would provide a substantial increase in sales volume and a proportionate reduction in operating expenses; hence the growth available in this type of unit is a factor to be considered in evaluating the future possibilities of the company.

Rapid Growth Outside of Massachusetts

While the concentrated growth of the predecessor companies in and around Boston necessitated the elimination of many stores, on the other hand, western Massachusetts and the other New England states offered a large field for expansion. At the time of the merger, the company operated but 25 stores in Maine, Vermont, Rhode Island, and Connecticut, serving a population of more than 3,500,000. At the close of its last fiscal year, March 31, 1930, the company was operating 1010 stores in these states. A week ago a group of 18 stores, doing an annual business of $500,000 in the northwestern section of Massachusetts, was bought for cash. The year-by-year growth of stores by states is shown herewith:

TABLE II

Store Growth—by States and Source

	Vt.	Mass.	R.I.	Conn.	Total	*Comb. Strs.
Ginter	4	410	0	0	427	
Connor	10	513	8	1	577	
O'Keeffe	0	593	1	0	645	
Total merged	14	1,516	9	1	1,644	0
Dorr acq, 1926		9			9	9
Net increase, 1926	3	−38	0	0	−13	3
Net increase, 1927	13	− 9	3	8	44	21
Net increase, 1928	6	−20	15	9	34	33
Net increase, 1929	9	2	19	25	93	55
Mayflower acq, 1929 ..		18	172	1	191	
Net increase, 1930	0	−50	−54	−16	−109	83
Economy acq				359	359	
Nicholas-Thackeray acq		4	116		120	
Modern and Davey acq				†176	177	
Total Mar. 31, 1930 .	45	1,432	253	†563	2,549	204

*Included in total stores, and stores by states. †Excludes one store in New York state.

At the present time, the company is operating a total of 2603 units, of which 275 are markets.

Expansion north of Massachusetts has been through the opening of new store units; to the south, by acquisition. The purchase of five chains, with centers at Providence, Hartford, and Bridgeport, established the First National firmly in the states of Rhode Island and Connecticut.

The nine restaurants, which came into the merger through the Ginter Co., were sold to the Waldorf Co. early in 1927, relieving the company of specialized and alien activity.

The Future

Now that the major problems of the company have been satisfactorily worked out, it is in a position to consolidate its distributing and manufacturing activities more advantageously. Expansion will continue, but it will be based upon selectivity of both locations and acquisitions. The real growth of the next few years will come from two sources, a normal development of the combination store, and an increase in the company's manufacturing activities, not only in the grocery and bakery lines but as well through the processing of meats, a department of the business holding high promise.

The capital requirements needed for the normal annual growth in combination stores is comparatively modest; on the other hand, the increased sales and resultant growth in net profits should be very substantial.

The present strong financial position of the company, together with the completion of its major developments, suggests the probability that before long some definite action may be taken toward the retirement of its funded debt and senior securities. Sinking funds in hand, together with the maintenance of earnings at no higher level than at present, would permit the company to carry these financial operations to completion within two or three years.

The Somerville Base

The Somerville "base" is the most efficient distributing unit of its kind in the chain grocery field. It is more of a factor in the company's earning structure than is ordinarily recognized. Developed by the officials of the First National Stores, Inc., in part through the use of standard practice and in part through the adoption of entirely new ideas, it has engaged the interest and won the commendation of chain-store executives throughout the country. It serves a larger and more densely located group of stores than any other warehouse of its type. Some 1600 stores draw their supplies from its substantial stocks. As presently constituted, the "base" contains 751,045 square feet, or 17.2 acres. Forty-two freight cars may be unloaded and 137 automobile trucks may be loaded simultaneously.

Meats and their by-products are segregated in a special building. Government inspection adds a safeguard not found in ordinary practice. In the construction of this building, adequate facilities were provided for the additional processing of meat and meat products. The company is now beginning the manufacture of sausages and frankfurters, and will shortly be producing bacon, hams and other smoked pork products.

Fish, both fresh and frozen, is also segregated. Fresh fruits and vegetables have their own loading and unloading platforms, but by far the largest part of the base is devoted to groceries and their manufacture. In the latter section, reserve stocks are kept on skids readily movable by a fleet of lift-trucks. The skids for store supplies are arranged in precise order following the arrangement of the store order form. Men operating individual overhead monorail cars go up and down the long aisles of merchandise picking up here and there the items ordered by the stores. It requires only 18 minutes to make a round trip. Here and there, throughout the warehouse, are placed various manufacturing activities. The continued growth of this department of the business will provide a further source of increasing profits.

Two 110-foot traveling ovens electrically bake nearly a million loaves of bread a week. There is a cake bakery, with one straightaway and two rotary ovens, together with a doughnut-making machine. Elsewhere a modern laundry, a printing plant, a garage and a gasoline station, together with a reclamation shed salvaging the waste from store and warehouse, add to the profits of the company.

Acquisitions

Reference was made earlier to the expansion throughout Rhode Island and Connecticut by acquisition of existing chains, some five having been purchased during the past two years. The following table gives the date of the acquisition, the sales and earnings of the acquired company, the shares of First National stock paid thereon, and the earnings of the acquired companies on the shares of First National paid therefor:

	Mayflower Stores	Economy Store Co.	Nicholas Thackeray	Davey Bros. Modern
Date of acquisition	Dec. 26, '28	May 31, '29	Nov. 1, '29	Nov., 1929
Total sales*	$4,793,796	$13,609,274	$2,951,056	$4,000,000
Total earnings*	122,634	512,824	40,362	....
Shares First Nat'l paid therefor	33,616	147,000	7,988	cash
Earn per share on shares of First Nat'l paid	3.64	3.48	5.06	....

*For the last fiscal year preceding the merger.

In every instance, the earnings of the acquisitions, when applied to the shares of First National stock paid for them, were higher than the per-share earnings of the First National Stores, Inc., for equivalent periods. Furthermore, none of the acquisitions, insofar as operating records disclose, had so high an operating ratio as the company itself. Hence, each offered possibilities for improvement in earning power to the First National standard, making the acquisitions even more attractive.

Income Account

In Table III quarterly income accounts for 2¾ years are compared. From these reports, we are able to trace the increased operating efficiency which came with the opening of the Somerville base and the elimination of the many duplicating units of the merged companies.

First National Stores has one of the highest operating profit ratios in the chain grocery field. In 1929, the "A. & P." reported a ratio of 2.49%, Kroger but 2.2%, Safeway 2.9%, National Tea 3.0%, American Stores 4.6%, while First National reported 4.4%. The chief causes of the high ratio of the company are its condensed field of operations, its many and important manufacturing activities, and, last but not least, its highly-developed warehouse control.

Effect of Declining Commodity Prices

Since the third quarter of its last fiscal year, the First National net to gross has failed to reach the level established by earlier periods when the full benefits of the merger first became apparent. Apart from the temporary retarding influence of new acquisitions, the decline of the First National earnings ratio is traceable directly to the movement of commodity prices, which for more than 16 months have been declining with more or less rapidity. With the stabilization of such prices, the company may well add ½ of 1% to its operating margin without in any way affecting the level of retail prices. During this period, many operating economies have been effected, not all of which are even yet reflected in earnings. Lower rents, greater efficiency in warehouse operations, increased manufacturing of grocery items, a wider activity in meats and meat-processing, together with increased consumer preference, have all contributed toward offsetting the effects of the depressions. These economies are for the most part permanent, whereas inventory losses from commodity-price declines will become non-recurring when such prices find their level.

For the current fiscal year ending March 31, 1931, sales of $108,000,000 and earnings per share of close to $5 seem probable. For the first nine months of this period, sales have aggregated $81,625,815, with earnings per share of $3.74, leaving for the fourth quarter the necessity of obtaining sales of $26,374,000, and earnings per share of $1.26 if the foregoing estimates are to be attained. In spite of the persistent decline in commodity prices, earnings ratios have been well maintained, although some improvement had to come in the fourth quarter if as much as $1.26 per share is to be shown.

Strong Financial Position

The balance-sheet position as of March 31, 1930, was favorable. Cash was nearly a million dollars higher than combined cash and securities of the previous year. Inventories were up $2,376,893, an increase in direct proportion to the increase of 679 stores. Investments of various kinds increased $345,822. Deferred charges were $31,000 lower, but fixed investments, reflecting both acquisitions and the construction of a $1,500,000

(Continued on Page Twenty-one)

TABLE III

QUARTERLY EARNINGS RESULTS

	—Nine months ending Dec. 27, 1930—			—Fiscal year ending Mar. 31, 1930—			
	Third	Second	First	Fourth	Third	Second	First
Sales	$26,968,481	$26,727,575	$27,929,759	$27,717,756	$27,831,386	$26,105,615	$25,213,910
Gross profits	1,442,104	1,419,077	1,522,486	1,378,562	1,433,991	1,589,195	1,491,257
Depreciation	206,452	207,863	177,148	157,447	160,498	145,675	139,743
Federal taxes	154,679	138,903	166,040	105,383	105,426	179,760	163,016
Total deduction..........	361,131	346,766	343,188	262,830	265,924	325,435	302,759
Net profit	1,080,973	1,072,311	1,179,298	1,115,732	1,168,065	1,263,760	1,188,498
Net profit ratio	4.01	4.01	4.23	4.02	4.19	4.84	4.71
Pfd dividends	87,470	87,470	87,470	87,470	85,281	87,031	87,031
Available for common	993,503	984,841	1,091,828	1,028,262	1,082,784	1,176,729	1,101,467
Common outstand	820,700	820,700	827,634	827,634	820,699	774,898	774,898
Earned per share.........	1.21	1.20	1.33	1.24	1.32	1.52	1.42

—Fiscal year ending Mar. 31, 1929—				
Fourth	Third	Second	First	
$20,380,310	$19,239,726	$18,339,353	$17,785,072	..................Sales
1,383,754	1,022,185	838,378	671,967	.... Gross profits
126,201	112,774	108,558	106,425	.... Depreciation
150,938	109,436	92,383	61,431	.... Federal taxes
277,239	222,210	200,941	167,856	.... Total deduction
1,106,515	799,975	637,437	504,111	.... Net profit
5.43	4.16	3.48	2.84	.... *Net profit ratio*
87,031	87,031	86,936	86,934	.... Pfd dividends
1,019,484	712,964	550,501	417,177	..............Available for common
628,616	595,000	595,000	595,000	..............Common outstand
1.63	1.20	0.92	0.70	.... Earned per share